

the necessary information. In addition, AICPA membership trends, augmented by data available from state boards of accountancy regarding numbers of licensees, may be useful data.

Therefore, the Committee recommends the establishment of a national cooperative committee, comprised of organizations such as the AICPA and the AAA, to encourage periodic consistent demographic and higher education program profile data. The Committee believes that having such data available will increase the ability of auditing firms, corporations, investors, academics, policy makers, and others to understand more fully, monitor and evaluate, and take necessary or desirable actions with respect to the human capital in the auditing profession and its future and sustainability.

Recommendation 5. Encourage the AICPA and the AAA to jointly form a commission to provide a timely study of the possible future of the higher education structure for the accounting profession.

The Committee heard testimony regarding the feasibility of establishing a free-standing, post-graduate professional educational structure.<sup>75</sup> Currently, there is no post-graduate institutional arrangement dedicated to accounting and auditing. Graduate programs in accounting are generally housed within business schools and linked with undergraduate accounting programs.

The history of the development of U.S. educational programs and preparation for accounting careers reveals a pattern of evolution of increasing formal higher education, with accreditation standards following and reinforcing this evolution, and with market needs providing the impetus and context. Today, accrediting agencies have recognized over 150 accounting programs as the result of these programs' improving accounting education as envisioned by prior studies and reports.

In a November 2006 Vision Statement, the chief executive officers of the principal international auditing networks noted the challenges in educating future auditing professionals, including the sheer quantity and complexity of accounting and auditing standards, rapid technological advancements, and the need for specialized industry knowledge.<sup>76</sup> This development in the market leads to a clear need to anticipate and enhance the human capital elements of the auditing profession. As such, this vision statement provides the impetus to

commission a group to study and propose a long-term institutional arrangement for accounting and auditing education.

As in the past, in the face of challenges of the changing environment for the profession, the Committee believes that the educational system should thoughtfully consider the feasibility of a visionary educational model. Therefore, the Committee recommends that the AICPA and the AAA jointly form a body to provide a timely study of the possible future of the higher education structure for the accounting profession. This commission may include representation from higher education, practitioners from the wide spectrum of the accounting and auditing profession, regulators, preparers, users of the profession's services, and others. The commission would consider the potential role of a postgraduate professional school model to enhance the quality and sustainability of a vibrant accounting and auditing profession. The commission should consider developments in accounting standards and their application, auditing needs, regulatory framework, globalization, the international pool of candidates, and technology. Finally, a blueprint for this sort of enhanced professional educational structure would also require the consideration of long-term market circumstances, academic governance, operations, programs, funding and resources, the role of accreditation, and experiential learning processes.

#### Other Issues Under Consideration

The Committee is also considering and debating a variety of other issues. Further elaboration on these issues will be included in subsequent drafts of this Report.

#### VI. Firm Structure and Finances

In addressing the sustainability of the auditing profession, the Committee sought input on and considered a number of matters relating directly to auditing firms, including audit quality, governance, transparency, global organization, financial strength, ability to access capital, the investing public's understanding of auditors' responsibilities and communications, the limitations of audits, particularly relating to fraud detection and prevention, as well as the effect of litigation where audits are alleged to have been ineffective. The Committee also considered the regulatory system applicable to auditing firms.

While much data was available to the Committee, such information was not exhaustive. Certain information regarding auditors of public companies, the auditor of record, and audit fees is readily available. Auditing firms also provide on a voluntarily basis certain other information they believe useful to clients, regulators, and/or investors. Also, in connection with the work of the Committee, the largest firms provided certain additional input, through the Center for Audit Quality (CAQ), sometimes by individual firm and sometimes in summarized format.<sup>77</sup>

<sup>77</sup> Center For Audit Quality, Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession (Jan. 23, 2008); Center for Audit Quality,

After reviewing these data and receiving testimony from witnesses and comment letters, the Committee focused on a few specific areas: Fraud prevention and detection; federal and state regulatory system; governance; and disclosure of auditor changes.

The Committee recommends that regulators, the auditing profession, and others, as applicable, effectuate the following:

Recommendation 1. Strengthen auditing firms' fraud detection and prevention skills and clarify communications with investors regarding auditing firms' fraud detection responsibilities.

Public Company Accounting Oversight Board (PCAOB) standards currently require auditors to plan and perform audits to obtain reasonable assurance whether financial statements are free of material misstatement, including those caused by fraud.<sup>78</sup> The Committee considered testimony and commentary regarding auditing firms' responsibilities and practices relating to fraud prevention and detection.<sup>79</sup> The auditing profession itself has recognized the significance of its duties with respect to fraud: "Perhaps no single issue is the subject of more confusion, yet is more important, than the nature of the obligation of auditors to detect fraud—or intentional material misstatement of financial information by public companies."<sup>80</sup>

The Committee believes that continued enhancement of auditors' fraud prevention and detection skills will improve financial reporting and audit quality and enhance investor confidence in financial reporting and the auditing function. In that regard, the Committee recommends the following:

(a) Urge the creation of a national center to facilitate auditing firms' and other market participants' sharing of fraud prevention and detection experiences, practices, and data and innovation in fraud prevention and detection methodologies and technologies, and commission research and other fact-finding regarding fraud prevention and detection, and further, the development of best practices regarding fraud prevention and detection.

No formal forum currently exists where auditors and other market participants

Second Supplement to Report of the Major Public Company Audit Firms to the Department of the Treasury Advisory Committee on the Auditing Profession (Apr. 16, 2008).

<sup>78</sup> Consideration of Fraud in a Financial Statement, Interim Auditing Standard AU 316 (Pub. Company Accounting Oversight Bd. 2002).

<sup>79</sup> See, e.g., Andrew D. Bailey, Jr., Professor of Accountancy-Emeritus, University of Illinois, and Senior Policy Advisor, Grant Thornton LLP, Comment Letter Regarding Discussion Outline 4 (Jan. 30, 2008), available at [http://comments.treas.gov/\\_files/BAILEYCOMMENTS ONTREASURYADVISORYCOMMITTEEOUTLINE FINALSUBMISSION13008.doc](http://comments.treas.gov/_files/BAILEYCOMMENTS ONTREASURYADVISORYCOMMITTEEOUTLINE FINALSUBMISSION13008.doc); Record of Proceedings (Feb. 4, 2008) (Written Submission of Dennis Johnson, Senior Portfolio Manager, Corporate Governance, California Public Employees' Retirement System, 5), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Johnson020408.pdf>.

<sup>80</sup> Serving Global Capital Markets and the Global Economy: A View from the CEOs of the International Audit Networks 12 (Nov. 2006).

<sup>75</sup> See, e.g., Record of Proceedings (Dec. 3, 2007) (Oral Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/CarcelloOralStatement120307.pdf> (recommending that "the Advisory Committee consider a different model—an education model involving professional schools of auditing \* \* \*"); Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 3), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (discounting the feasibility of free-standing professional schools).

<sup>76</sup> Global Capital Markets and the Global Economy: A Vision From the CEOs of the International Audit Networks 15 (Nov. 2006).